

# Review of Operations

## Property Development

The status of the Group's major projects under development is shown below:

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Status	Expected Date of Completion
<b>MAINLAND CHINA</b>					
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	100	2,900,000	Site clearance work in progress	2008 (first phase)
<b>MACAU</b>					
* <i>Villa de Mer</i> The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	126,400	Foundation work to be commenced in March/April 2007	2009/2010
* <i>Pacifica Garden</i> The Taipa District Macau	Residential and Commercial	35	35,900	Foundation work completed	2008
<b>HONG KONG</b>					
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	11,900	Superstructure work in progress	2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	100	196,400	Foundation and site formation works in progress	2009/2010
<b>TOTAL</b>			<b>3,270,600</b>		

\* Owned by the Group's 59.59% owned subsidiary Polytec Asset Holdings Limited ("Polytec Asset").

# Review of Operations

## Details of the Group's major land held for development:

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Expected Date of Completion
<b>MAINLAND CHINA</b>				
Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	50	1,600,000	2009 (first phase)
# Lot No. Jin Dong Liu 2004-066 Intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	100	930,000	2010 (first phase)
<b>MACAU</b>				
* Lotes T and T1 The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	164,200	2010
* Lote P The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	687,700	2011 (first phase)
<b>HONG KONG</b>				
Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	100	5,600	2009
<b>TOTAL</b>			<b>3,387,500</b>	

# The project company for holding the land in Tianjin is in the process of formation and it will become a subsidiary of the Group.

\* Owned by the Group's 59.59% owned subsidiary Polytec Asset.

### Shenyang Dong Ning District, PRC

The site will be developed by phases and the first phase development has commenced.

### 31 Robinson Road, Mid-Levels, Hong Kong

The deluxe residential tower being constructed on this prime location will provide residents with comprehensive services and recreational facilities including a swimming pool and a luxury clubhouse.



*Shenyang Development Site – Rendering of Residential and Commercial Buildings*

### 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon, Hong Kong

The site will be developed into a residential and commercial complex with retail and community facilities.

### Foshan Nanhai District, PRC

The seven sites will be developed in line with the government approved plan for a mixed-use scheme to include residential and commercial premises, hotels, restaurants and recreational and cultural areas. The site will be developed by phases and is undergoing site investigation and overall layout planning.

### Tianjin Hedong District, PRC

The site is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium.

### Belcher's Street, Hong Kong

The foundation and construction works for the Group's re-development project with site area of 564 sq m at Belcher's Street on Hong Kong Island will begin in the second half of 2007. This project is expected to be completed by 2009 and will provide a total gross floor area of approximately 5,600 sq m.

## Property Investment



*Pioneer Centre*

Robust growth of the Hong Kong economy in 2006 with higher GDP growth, declining unemployment, abated inflationary pressures, rising personal income and continued resilient retail sales supported by buoyant tourism strengthened investor confidence. Business operators' expansion plans continued to push up the rentals of both the office and the retail sectors, though at a slower speed in the second half of year 2006. Increasing demand for prime shopping areas and large size office spaces has been seen throughout the year 2006.

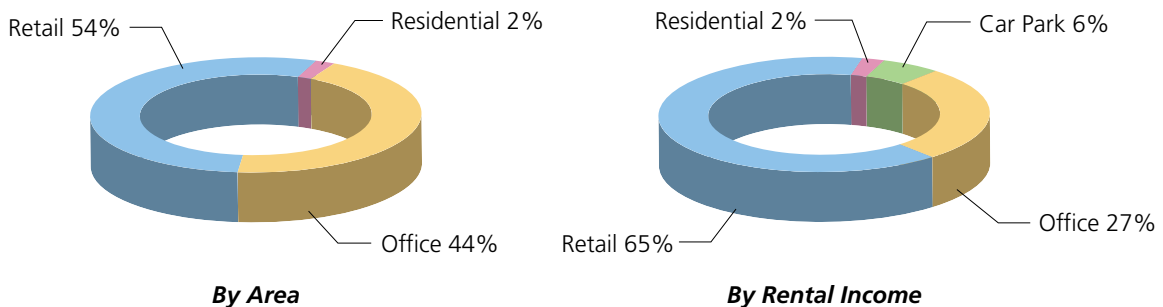
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The Group's investment properties, excluding that of the listed subsidiary Polytec Asset, amounted to a total attributable gross floor area of 60,317 sq m.

For the year under review, the Group's gross rental income rose 5.7% to HK\$224 million compared with the previous year. The average occupancy rate at the year end was 98%.

Total rental income from Pioneer Centre, the Group's flagship property, for the year rose to HK\$179 million from HK\$170 million in 2005. The increase was largely due to an increase in rental contribution from the retail tenancies and the higher rental rates secured upon renewal of the major tenancies in the office portion.

## Distribution of Investment Properties



## Property Management

At the end of 2006, the Group and its associated companies together manage properties totalling over 1.30 million sq m (2005: 790,000 sq m) which included luxury residential and serviced apartments, public housing estates and commercial premises.



## Financing and Investments

The Group enjoyed a fruitful year in 2006 as the securities market boomed in 2006 in part due to the inflow of capital from mainland corporations. At the year end, the Group had financial investments totalling HK\$1,409 million, with HK\$151 million in long term investment and HK\$1,258 million in short term investment. The Group's financing and investment activities contributed an operating profit of HK\$325 million as compared with HK\$124 million in 2005. This remarkable increment of 162% in operating profit owed much to the rebounding stock market triggered by outperforming China-concept shares. Because of the expected economic growth of Mainland China and the accelerating appreciation potential of Renminbi in the year 2007, China-concept shares should remain strong. The Group will continue to adopt a prudent and cautious approach in seeking investment opportunities to sustain growth for its investment portfolio.

## Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties")

Waiver from the obligation to make a general offer for the remaining 29.7% issued shares in Shenzhen Properties was not granted by the China Securities Regulatory Commission ("CSRC"). Accordingly in May 2006, the Group initiated the general offer process and paid HK\$120 million as a deposit. Subsequently in the same month, the Group was advised by the CSRC that the examination of the general offer documents for the remaining issued shares in Shenzhen Properties would be temporarily suspended pending verification of certain issues by the State Council State-owned Assets Supervision and Administration Commission. The verification process was completed and a report was issued in February 2007. The Group is now pending instruction from CSRC for further action.

## Polytec Asset Holdings Limited

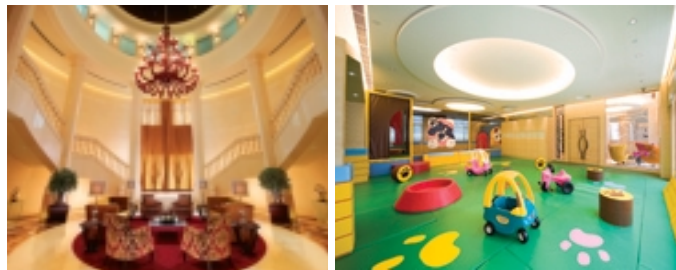
For the year ended 31 December 2006, Polytec Asset, a 59.59% owned listed subsidiary of the Company, recorded an operating profit of HK\$142 million representing a 156% growth when compared with the previous year. The profit attributable to shareholders of Polytec Asset was HK\$30 million as against HK\$477 million for 2005. The 2005 figure of HK\$477 million included a net property revaluation gain of HK\$420 million and an amount of HK\$19 million in respect of the recovery of a previously written off loan whereas a net property revaluation loss of HK\$4.6 million was included in 2006. After excluding net property revaluations and the loan recovery, the underlying profits attributable to shareholders of Polytec Asset decreased by HK\$4.3 million. Polytec Asset contributed HK\$7.7 million to the Group's profit in 2006.

# Review of Operations

## Property Development and Investment

Polytec Asset acquired an 80% interest, from its ultimate holding company, three development projects, namely Villa de Mer (also known as Lote V), Lote P and Lotes T and T1 in April 2006. The projects, located in the Orient Pearl District of Macau, have an aggregate gross floor area of approximately 978,000 sq m.

Villa de Mer comprises five residential towers with approximately 1,300 units erected on top of a podium with retail, recreational and car parking spaces and has a total gross floor area of approximately 126,400 sq m. The foundation work is scheduled to be commenced in March/April 2007. The development is expected to complete in 2009/2010. Presale of the project has started in November 2006 and was well received by the market. In view of the prosperous sentiment in Macau's property market, over 50% of the total residential units are sold off plan.



*La Baie Du Noble – Club House*

Lote P, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 687,700 sq m. This site will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces by three phases. Construction of phase 1 is expected to commence in the second half of 2007 and be completed in 2011.

Lotes T and T1, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 164,200 sq m. This site currently is a bare site but will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces. Construction works is expected to commence in the second half of 2007 and be completed in 2010.

Pacifica Garden, a 58% owned residential and commercial project in Taipa Macau has finished its foundation work and the whole development is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

Renovation of the retail portion of Macau Square, a 50% owned commercial property located at Avenida do Infante D. Henrique, total retail space with gross floor area of approximately 8,400 sq m, has been completed and almost entirely let out. Renovation for the office portion of approximately 28,200 sq m is now progressing smoothly and the occupancy is now at about 60%.



*Macau Square*

Renovation works of Va long, a commercial building situated at Praca da Amizade with an aggregate gross floor area of approximately 1,900 sq m is close to completion. With the benefit of the refurbishment, we expect to attract potential tenants for the property in the near future.

China Plaza, with 70% owned office units situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau, is ready for sale. Following refurbishment an encouraging number of enquiries from potential buyers is being received.

## Other Businesses

To concentrate on the Group's core business in property development and investment, the Group disposed of its entire 20% equity interest in the issued share capital of Southern Success Corporation, a company engaged in sales and distributions of apparel, shoes and accessories, for a consideration of US\$11,600,000 (equivalent to approximately HK\$90,480,000) in March 2006 with a gain of approximately HK\$47 million recognised by the Group.

By expansion of cold storage capacity and the adoption of new marketing strategies, the ice manufacturing and cold storage business of Polytec Asset improved its operating profit this year.

## Human Resources and Remuneration Policy

The Group (including its listed subsidiary, but excluding all associates) employed a total of about 324 employees at the end of 2006 (2005: 250 employees). Employee remuneration amounted to approximately HK\$80 million in 2006 (2005: HK\$52 million which included only one month's post acquisition staff costs of Polytec Assets). Regular review on salary levels of the Group is conducted to maintain competitiveness. Employees are rewarded in accordance with their responsibilities and performance within the Group's salary and bonus system. A share option scheme was introduced to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

The basis of determining the emoluments payable to the Directors of the Company are set out in the Corporate Governance Report in this Annual Report.